

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

AMERICANS FOR PROSPERITY

December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Americans for Prosperity

We have audited the accompanying balance sheet of Americans for Prosperity (a nonprofit organization) as of December 31, 2010, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Americans for Prosperity as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Douglas Corey & Associates, P.C.

April 28, 2011

Americans for Prosperity
Balance Sheet
December 31, 2010
(See Independent Auditor's Report and notes to financial statements)

Assets

Current Assets	
Cash and cash equivalents	\$ 728,076
Pledges receivable	192,929
Other receivable	109,718
Due from affiliate	<u>1,582,195</u>
 Total current assets	 2,612,918
 Property and equipment, net of accumuated depreciation of \$ 3,768	 <u>16,784</u>
	 <u><u>\$ 2,629,702</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued liabilities	\$ 900,424
Payable to affiliate	<u>1,685,860</u>
 Total current liabilities	 2,586,284
 Net Assets	
Unrestricted	(2,185,134)
Temporarily restricted	<u>2,228,552</u>
	<u>43,418</u>
	 <u><u>\$ 2,629,702</u></u>

Americans for Prosperity
Statement of Activities
For the year ended December 31, 2010
(See Independent Auditor's Report and notes to financial statements)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support:			
Contributions	\$ 10,715,440	\$ 11,000,436	\$ 21,715,876
Registration fees	9,979	-	9,979
Interest on intercompany loan	357,623	-	357,623
Interest income	38	-	38
Refunds and other income	5,579	-	5,579
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>10,077,068</u>	<u>(10,077,068)</u>	<u>-</u>
 Total Revenues and Other Support	 21,165,727	 923,368	 22,089,095
Expenses:			
Program expenses			
State chapter activities	3,819,255	-	3,819,255
National	18,053,581	-	18,053,581
General and administrative	1,119,056	-	1,119,056
Development	<u>1,072,295</u>	<u>-</u>	<u>1,072,295</u>
 Total Expenses	 <u>24,064,187</u>	 <u>-</u>	 <u>24,064,187</u>
 Change in Net Assets	 (2,898,460)	 923,368	 (1,975,092)
Net Assets, beginning of year	<u>713,326</u>	<u>1,305,184</u>	<u>2,018,510</u>
Net Assets, end of year	<u>\$ (2,185,134)</u>	<u>\$ 2,228,552</u>	<u>\$ 43,418</u>

Americans for Prosperity
Statement of Cash Flows
For the year ended December 31, 2010
(See Independent Auditor's Report and notes to financial statements)

Cash flows from operating activities:	
Change in net assets	\$ (1,975,092)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,768
(Increase) decrease in pledges receivable	(27,930)
(Increase) decrease in other receivable	(77,958)
(Increase) decrease in due from affiliate	1,192,377
Increase (decrease) in accounts payable	530,550
Increase (decrease) in due to affiliate	<u>706,180</u>
Net cash provided (used) by operating activities	351,895
Cash flows from investing activities:	
Fixed asset purchases	<u>(20,552)</u>
Net increase in cash and cash equivalents	331,343
Cash, beginning of year	<u>396,733</u>
Cash, end of year	\$ <u><u>728,076</u></u>
Supplemental disclosures:	
Cash paid during the year for:	
Income taxes	\$ <u><u>-</u></u>
Interest expense	\$ <u><u>-</u></u>

Americans for Prosperity
Statement of Functional Expenses
For the year ended December 31, 2010
(See Independent Auditor's Report and notes to financial statements)

	<u>Program Services</u>			<u>Supporting Services</u>			
	State Chapter Activities	National Activities	Ttl Program Services	Mgmt and General	Development	Ttl Supporting Services	Total Expense
Communications, ads, media.	\$ 910,120	\$ 10,043,458	\$ 10,953,578	\$ 250,358	\$ 28,935	\$ 279,293	\$ 11,232,871
Professional fees, consulting	225,183	3,578,303	3,803,486	5,462	17,839	23,301	3,826,787
Printing, duplication	749,283	1,235,692	1,984,975	6,165	149,545	155,710	2,140,685
Salaries	483,996	825,067	1,309,063	152,322	347,108	499,430	1,808,493
Postage, courier, overnight	334,239	373,918	708,157	1,679	68,591	70,270	778,427
Contractors	374,169	244,019	618,188	55,880	57,346	113,226	731,414
Meetings, conferences and events	176,479	513,671	690,150	1,717	5,352	7,069	697,219
Overhead allocated from affiliate	-	152,926	152,926	244,698	186,551	431,249	584,175
Travel	121,959	402,391	524,350	9,192	27,431	36,623	560,973
Contributions/sponsorships	74,890	3,314	78,204	175,540	992	176,532	254,736
Computers/IT service	19,673	140,397	160,070	20,981	50,749	71,730	231,800
List rental	67,278	122,302	189,580	-	19,999	19,999	209,579
Honoraria	73,500	129,860	203,360	-	-	-	203,360
Legal and other professional fees	47,832	78,573	126,405	23,915	11,781	35,696	162,101
Employee benefits	65,266	23,761	89,027	38,383	29,244	67,627	156,654
Payroll taxes	51,979	33,193	85,172	9,170	24,440	33,610	118,782
Intercompany interest expense	-	-	-	84,630	-	84,630	84,630
Equipment leasing and other rental	4,504	70,126	74,630	-	-	-	74,630
Registration fees	11,643	15,898	27,541	3,417	27,725	31,142	58,683
Office supplies and expense	6,764	37,886	44,650	4,074	5,513	9,587	54,237
Miscellaneous	2,104	10,333	12,437	14,647	8,841	23,488	35,925
Membership	-	5,431	5,431	15,500	2,328	17,828	23,259
Telecommunications	8,899	7,592	16,491	230	1,925	2,155	18,646
Subscriptions and publications	9,495	1,702	11,197	52	60	112	11,309
Depreciation	-	3,768	3,768	-	-	-	3,768
Insurance	-	-	-	1,044	-	1,044	1,044
	<u>\$ 3,819,255</u>	<u>\$ 18,053,581</u>	<u>\$ 21,872,836</u>	<u>\$ 1,119,056</u>	<u>\$ 1,072,295</u>	<u>\$ 2,191,351</u>	<u>\$ 24,064,187</u>

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note A - Nature of Organization

Americans for Prosperity (AFP) was incorporated on March 10, 2004. AFP is a nationwide organization of citizen leaders committed to greater economic growth, opportunity, and prosperity through strong ethical foundations, government restraint and private sector productivity and competition. AFP mobilizes citizens to achieve fiscal and regulatory restraint by state governments and a return of the Federal government to its Constitutional limits. AFP's support comes primarily from individual and business donors.

Note B - Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Method of Accounting

AFP's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

2. Financial Statement Presentation

AFP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. For the year ended December 31, 2010, AFP had no permanently restricted net assets.

3. Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

4. Fixed Assets

Fixed assets are recorded at cost at the date of acquisition. They are depreciated on a straight-line basis over the estimated useful lives of the assets, generally five years.

5. Functional Allocation of Expenses

AFP allocates its expenses on a functional basis among its various programs, general and administrative, and development. Expenses that can be identified with a specific program, general and administrative, and development are allocated directly according to their natural expenditure classification. Other expenses that are common to both program functions and supporting services are allocated based on salary expenditures.

6. Advertising

AFP utilizes print, radio and television ads to increase their membership base and bring their mission to the public. These costs are expensed as incurred and totaled \$11,232,871 for the year ended December 31, 2010. These costs are charged directly to the program they benefit.

7. Unconditional Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. As of December 31, 2010, there were pledges receivable totaling \$192,929.

8. Income Taxes

AFP is exempt from income taxes on all activities directly related to its exempt purpose under the Internal Revenue Service Code Section 501(c)(4). The Organization is liable for income taxes on unrelated business income. There was no taxable net unrelated business income for the year ended December 31, 2010. Accordingly, no provision for income taxes has been made in these financial statements.

The Organization evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2010. The Organization's 2007 through 2010 tax years are open for examination by federal taxing authorities.

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

9. Cash and cash equivalents

For purposes of the statement of cash flows, AFP considers all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

At various times during the period ended December 31, 2010 AFP had more funds on deposit at one financial institution than the \$250,000 insured by the Federal Deposit Insurance Corporation. Management regularly monitors the financial condition of the banking institution, along with their balances in cash and tries to keep these potential risks to a minimum.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C – Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 28, 2011 the date that the financial statements were available to be issued.

Note D – Property and Equipment

Property and equipment is as follows:

Vehicles	\$20,552
Accumulated depreciation	<u>(3,768)</u>
Net book value	<u>\$16,784</u>

Depreciation expense for the year ended December 31, 2010 is \$3,768.

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note E – Temporarily Restricted Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Arizona chapter activities	\$ 73,761
Arkansas chapter activities	111,339
California chapter activities	20,637
Colorado chapter activities	70,552
Florida chapter activities	31,141
Georgia chapter activities	19,079
Illinois chapter activities	98,390
Kansas chapter activities	475,224
Maine chapter activities	2,635
Maryland chapter activities	286,951
Michigan chapter activities	62,299
Missouri chapter activities	39,422
Nebraska chapter activities	125,436
Nevada chapter activities	22,340
New Hampshire chapter activities	170,037
New Jersey chapter activities	477,033
North Carolina chapter activities	222,558
North Dakota chapter activities	25
Ohio chapter activities	49,190
Oregon chapter activities	165,619
Pennsylvania chapter activities	607
South Carolina chapter activities	40
South Dakota chapter activities	100
Texas chapter activities	65,275
Virginia chapter activities	71,201
Washington chapter activities	67,685
Wisconsin chapter activities	282,081

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note F – Temporarily Restricted Net Assets, continued

Healthcare	2,343,990
Hot Air Tour	100,291
Membership	510,217
Sick of Spending	178,834
November is Coming	3,333,056
Spending Revolt	600,000
November Speaks	<u>23</u>
	<u>\$ 10,077,068</u>

Temporarily restricted net assets at December 31, 2010 are available for the following purposes:

Arizona chapter activities	\$ 79,662
California chapter activities	184,941
Colorado chapter activities	40,077
Florida chapter activities	97,131
Illinois chapter activities	115,728
Kansas chapter activities	563,772
Michigan chapter activities	148,219
Missouri chapter activities	5,521
Nebraska chapter activities	2,196
New Jersey chapter activities	627,234
Oklahoma chapter activities	114,881
Oregon chapter activities	4,797
Tennessee chapter activities	5,000
Texas chapter activities	46,464
Time restrictions (pledges receivable)	<u>192,929</u>
	<u>\$2,228,552</u>

**Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)**

Note G – Line of Credit

AFP has an available line of credit of \$500,000 with a fixed interest rate of 5%. There were no outstanding draws on the line as of December 31, 2010.

Note H – Affiliated Organization

AFP operates under an affiliation agreement with Americans for Prosperity Foundation (AFPF). The agreement addresses shared personnel, shared office space and facilities, and shared overhead costs. The shared expenses are allocated based on direct compensation and actual usage. In accordance with the agreement, the balance due to or from AFPF must be settled on a quarterly basis. If the balance is not settled, interest accrues on the outstanding balance at one-percent per month. Occupancy, salaries, and administrative expenses allocated to AFP from AFPF totaled \$3,264,836 for the year ended December 31, 2010. Interest expense charged to AFP on the amount due to AFPF totaled \$84,630 for the year ended December 31, 2010.

AFP makes loans to AFPF on a periodic basis. The total due from AFPF to AFP as of December 31, 2010 was \$1,582,195. This amount includes interest charged to AFPF totaling \$357,623.

Note I – Major Donors

During the year ended December 31, 2010, AFP received \$4,000,000 from one donor, which accounts for 18% of total support for the period.

Note J – Related Party Transactions

During the year ended December 31, 2010, contributions from board members totaled \$410,000.

Note K – Contributed Services

Many volunteers have contributed numerous hours of administrative, maintenance and fund raising services to the Organization. However, these hours do not meet the requirements to be recorded as revenue and expense under SFAS 116.

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note L – Direct Mail Costs

During the year ended December 31, 2010, AFP incurred direct mail costs of \$655,152. These costs have been reported as part of development and membership expenses.

Note M – State Chapter Activities

For the year ended December 31, 2010, expenses by State chapter are as follows:

Arizona	\$ 73,761
Arkansas	146,321
California	20,637
Colorado	70,552
Florida	31,141
Georgia	36,929
Illinois	98,390
Kansas	475,224
Maine	3,253
Maryland	455,966
Michigan	62,299
Missouri	39,422
Nebraska	125,436
Nevada	142,588
New Hampshire	179,619
New Jersey	477,032
North Carolina	479,687
North Dakota	25
Ohio	49,932
Oregon	165,619
Pennsylvania	607
South Carolina	40
South Dakota	100
Texas	65,275
Virginia	127,467
Washington	92,749
Wisconsin	<u>399,184</u>
Total State chapter activities	<u>\$3,819,255</u>

Americans for Prosperity
Notes to Financial Statements
December 31, 2010
(See Independent Auditor's Report)

Note N – Disregarded Entity

AFP is the sole owner of an LLC, which is a disregarded entity for tax purposes. As such, any activity in the LLC or assets owned by the LLC is recorded in the accompanying financial statements.

Note O – Unrestricted Net Asset Deficit

The accompanying balance sheet shows a deficit balance in unrestricted net assets. As of the date of these financial statements, the unrestricted change in AFP's net assets was sufficient to eliminate this deficit.